

Message Text

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FOLLOWING REPEAT JAKARTA 2242 ACTION SECSTATE DATED FEBRUARY 21ST

QUOTE

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AIDAC

EO 11652: N/A
SUBJECT: MACNAMARA VISIT

REF : STATE 022509

1. USAID DIRECTOR MET WITH DAVID GORDON
FEBRUARY 20TH FOR BRIEFING ON MACNAMARA VISIT
INDONESIA FEBRUARY 16-19TH.

2. MACNAMARA SAID TOVOI AUTHORITIES THAT RECENT
DRAMATIC CHANGE IN INDONESIAN FINANCIAL PROSPECTS
REQUIRED A COMPLETE RETHINKING OF ECONOMIC PROGRAM,
DEVELOPMFT EFFORT AND AID REQUEST. AS P WAS,
INDONESIA WAS NOT IN A POSITION TO USE ALL THE
FINANCIAL RESOURCES AT ITS DISPOSAL, AND IT WOULD
BE XJIFFICULT TO JUSTIFY LARGE AMOUNTS OF AID IN FACE
OF ACCUMULATING RESERVES WHAT WAS NEEDED WAS A PLAN
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FOR THE FUTURE WHICH WOULD PUT THESE NEW RESOURCS TO

USE AS SOON AS POSSIBLE IN SUPPORT OF A STEPPED UP DEVELOPMENT EFFORT. MEANWHILE, UNTIL INDONESIA IN POSITION USE ITS FOREIGN EXCHANGE, THEY MIGHT CONSIDER PUTTING SOME OF IT INTO A FORTHCOMING ISSUE OF IBRD 2YER BONDS OF A TYPE USUALLY BOUGHT BY CENTRAL BANKS. MACNAMARA EMPHASIZED THIS NOT A REQUIREMENT OF FUTURE BANK COOPERATION, HOWEVER

3. CHANGED INDONESIAN CIRCUMSTANCES PERMITTED IDA REVIEW GLOBAL ALLOCATIONS, AND INTENTION WAS MOVE INDONESIA TO A BLEND COUNTRY WHICH WOULD RECEIVE BOTH IDA AND IBRD LOANS. INDONESIANS DESCRIBED AS HAVING RECEIVED THIS NEWS WITH GOOD GRACES BUT NO ENTHUSIASM, AND SOME CONCERN THAT THIS MOVE ON BANK'S PART WOULD OPEN PANDORA'S BOX BY CAUSING OTHER LENDERS TO HARDEN TERMS. MACNAMARA EMPHASIZED AGAIN THAT IT WAS IN INDONESIA'S INTEREST TO EXPLAIN WHAT THEY INTEND TO DO WITH THE MONEY, AND THAT THEY CAN'T PRETEND THAT NOTHING HAS HAPPENED.

4. GORDON DESCRIBED MEETING WITH SUHARTO AS CORDIAL. SUHARTO DESCRIBED MAIN PROBLEMS AS POPULATION GROWTH, DEVELOPMENT OF OUTER ISLANDS (TRANSMIGRATION), FOOD PRODUCTION AND FERTILIZER SUPPLY. MACNAMARA AGREED WITH THESE PRIORITIES, AND SAID THAT BANK READY DO MORE BY WAY OF ASSISTANCE IF REQUESTED. NOW THAT CONSTRAINT OF LIMITED IDA RESOURCES REMOVED AND INDONESIA COULD BORROW ON IBRD TERMS, MACNAMARA PREPARED TO THINK OF EVENTUAL BANK LENDING PROGRAM ON THE ORDER OF \$350-400 MILLION PER ANNUM. LEVEL COULD BUILD UP OVER FEW YEARS AS INDONESIAN ABILITY USE RESOURCES INCREASED.

5. MACNAMARA WENT OUT OF WAY TO HIGHLIGHT POPULATION ISSUE AND COMMEND INDONESIAN EFFORTS TO DATE. TOLD SUHARTO THAT INDONESIAN FAMILY PLANNING PROGRAM IS BEST WITH WHICH BANK ASSOCIATED ANYWHERE IN WORLD, BUT GIVEN THE MAGNITUDE OF PROBLEM, STILL INADEQUATE. HE URGED MORE ATTENTION TO FIELD STAFF AND STRENGTHENING OF TOP LEVELS OF BKKBN.
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6. NO INDICATION IN DISCUSSIONS THAT INDONESIANS ARE CONSIDERING REDUCTION IN AID REQUEST AT MAY MEETING. GORDON SAID HE FELT INDONESIANS STILL HAD NOT FULLY ACCEPTED THEIR NEW FINANCIAL PROSPECTS, AND WERE ONLY BEGINNING TO GRAPPLE WITH THE POLICY AND PROGRAM ISSUES TO WHICH THEY GIVE RISE.
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